POTASH CORPORATION OF SASKATCHEWAN

1989 ANNUAL REPORT

90-04695/

POTASH CORPORATION OF SASKATCHEWAN

ANNUAL REPORT

For the Year Ended
December 31, 1989

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 30, 1990

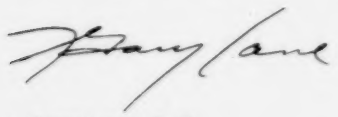
To Her Honour
Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of Potash Corporation of Saskatchewan for the year ended December 31, 1989, in accordance with The Potash Corporation of Saskatchewan Act. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,



J. Gary Lane, Q.C.
Minister Responsible
Potash Corporation of Saskatchewan

POTASH CORPORATION OF SASKATCHEWAN

Board of Directors

Honourable J. Gary Lane, Q.C.
Minister Responsible and Vice-Chairman
Regina

Paul J. Schoenhals
President, Petroleum Industry Training Service
Calgary

Charles E. Childers
President & CEO, PCS
Saskatoon

Louie Gierstorfer
President, Pirate Drilling Limited
Coleville

Dallas J. Howe
President, BDM Systems Ltd.
Saskatoon

Joe V. Helgason
Retired Farmer
Foam Lake

Darlene J. Hincks
City Councillor & Businesswoman
Regina

Roger W. Kaeding
Farmer
Churchbridge

Lloyd J. Martin
Partner, Parkland Distributors Inc. and C.B. Farm Ltd.
Ituna

John V. Remai
President & CEO, Remai Investment Co. Ltd.
Saskatoon

John D. Ritchie
Vice President, Wood Gundy Limited
Regina

Dr. Andrew Schmitz
Professor, University of Saskatchewan
Saskatoon

Doris M. Young
Manager, Meadow Lake Golf Course
Meadow Lake

OFFICERS

Potash Corporation of Saskatchewan

Charles E. Childers
President & CEO

John Gugulyn
Vice President
Corporate Affairs & Human Resources

John L.M. Hampton
Vice President
General Counsel & Secretary

Barry E. Humphreys
Vice President
Finance & Accounting

Richard J. Lacroix
Vice President
Technical Services

PCS Mining

James J. Bubnick
President

John L.M. Hampton
Secretary

William H. Eatock
General Manager
Allan Division

J. Wilbert Donohue
General Manager
Cory Division

Garth M. Moore
General Manager
Lanigan Division

Dale P. Jackson
General Manager
Rocanville Division

POTASH CORPORATION OF SASKATCHEWAN

1989 SUMMARY

The Sale

Potash Corporation of Saskatchewan (PCS) is a Crown corporation without share capital, established by the Government of Saskatchewan on February 4, 1975 and continued under **The Potash Corporation of Saskatchewan Act**, proclaimed on April 1, 1976. Through its subsidiaries, Potash Corporation of Saskatchewan Mining Limited (PCS Mining) and Potash Corporation of Saskatchewan Sales Limited (PCS Sales), PCS was a producer and exporter of potash. Until late in 1989, PCS Mining owned, operated or had an interest in five potash mines located in the Province of Saskatchewan. On September 12, 1989 **The Potash Corporation of Saskatchewan Reorganization Act** ("The Reorganization Act") was enacted. The Reorganization Act authorized PCS and any of its subsidiaries to sell all or substantially all of their assets and liabilities to a new company, Potash Corporation of Saskatchewan Inc. (PCS Inc.).

On October 30, 1989 the Board of Directors of PCS Mining authorized PCS Mining to enter into an "Agreement for the Purchase and Sale of the Assets of PCS Mining" ("PCS Mining Sale Agreement") with PCS Inc. On November 9, 1989 under the terms of the PCS Mining Sale Agreement, PCS Mining transferred substantially all of its assets and liabilities to PCS Inc. in exchange for 31 million voting common shares of PCS Inc.

On October 30, 1989 the Board of Directors of PCS authorized PCS to enter into the "Agreement for the Purchase and Sale of the Assets of Potash Corporation of Saskatchewan" ("PCS Sale Agreement") with PCS Inc. On November 9, 1989, under the terms of the PCS Sale Agreement, PCS transferred substantially all of its assets and liabilities to PCS Inc. in exchange for 4 million voting common shares of PCS Inc.

The Privatization

Immediately after the sale of operations to PCS Inc., PCS in an initial public offering by secondary distribution, sold 12,860,000 of its common shares in PCS Inc. for $231 million. In addition, 88,300 common shares were sold by PCS to employees of PCS Inc. at a discounted price.

By a separate voting memorandum and concurrent with the offering of common shares on November 9, 1989, the Province of Saskatchewan issued $192 million of Potash Ownership Bonds for sale to Saskatchewan residents. These bonds are exchangeable for a certain number of shares by the holders of the bonds after December 1, 1990. The exchange right terminates upon the maturity of the bonds on December 1, 1992. To fulfill the terms of the exchangeable feature of the ownership bonds, 11,100,000 common shares of PCS Inc. were placed in trust with a trustee by PCS on December 8, 1989.

PCS, on a consolidated basis, holds the remaining 10,951,700 shares as an investment in PCS Inc.

Operations Prior to November 9, 1989

Prior to the sale, PCS owned and operated potash mines at Rocanville, Cory and Lanigan. In addition, PCS held a 60% interest in and operated a mine at Allan. PCS reserves at the Esterhazy mine were mined and processed by a third party under a long-term agreement.

During 1989, the Rocanville mine produced 1.6 million tonnes of potassium chloride (KCl) and 1.3 million tonnes of KCl were produced at Lanigan. The Cory mine produced 0.3 million tonnes of KCl (white product only) in 1989, after having been downsized in the previous year. Production at Allan in 1989 was 0.5 million tonnes of KCl while 0.6 million tonnes were milled at Esterhazy.

Financial Results for 1989

In 1989 PCS reported a net loss of $360.7 million. For accounting purposes, PCS Inc. was deemed to be a continuation of PCS, thus PCS recorded the consideration received for the sale of net assets at an amount equal to the carrying value of the assets at the time of sale. Consequently no gain or loss on the transfer of operations to PCS Inc. has been recorded by PCS. PCS did record a loss on its investment in PCS Inc. totalling $441.5 million which represented the difference between the book value of PCS Inc. shares and their market value at November 9, 1989.

PCS also recorded $2.2 million of income as its share of the net earnings of PCS Inc. between November 9 and December 31, and $3.2 million of investment income. Income from operations prior to the sale was $75.4 million. During 1989, a dividend of $106.1 million was paid by PCS to Crown Investments Corporation of Saskatchewan (CIC). In addition, PCS paid $128 million to CIC as a reduction of equity advances.

Current Status

On January 10, 1990 Potash Corporation of Saskatchewan changed its name to CIC Mineral Interests Corporation (the "Corporation") pursuant to Section 7 of **The Potash Corporation of Saskatchewan Reorganization Act**. Effective January 24, 1990 the Corporation's Board of Directors was reduced from the thirteen members listed on page 3 to four members:

Honourable J. Gary Lane, Q.C.
Minister Responsible and Vice-Chairman

W. B. Gibson
President, Crown Management Board

R. D. Rogers
Senior Vice-President, Crown Management Board

W. D. Jones
Assistant Deputy Minister, Department of Finance

POTASH CORPORATION OF SASKATCHEWAN

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1989

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Potash Corporation of Saskatchewan as at December 31, 1989 and the consolidated statements of income and reinvested earnings and of cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

March 5, 1990
Saskatoon, Saskatchewan

Chartered Accountants

POTASH CORPORATION OF SASKATCHEWAN

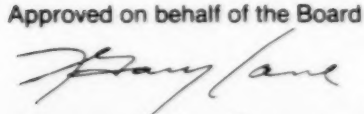
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

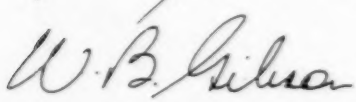
	Note	1989	1988
		(thousands)	
Assets			
Current Assets			
Cash and short-term investments		$ 214,778	$ 72,953
Accounts receivable		616	56,821
Inventories		---	48,919
Deposits and prepayments		---	20,426
		215,394	199,119
Investment in Potash Corporation of Saskatchewan Inc. (PCS Inc.)	3	399,150	---
Fixed assets and deferred charges		---	1,144,604
		$ 614,544	$ 1,343,723
Liabilities			
Current Liabilities			
Accounts payable and accrued charges		$ 3,259	$ 30,708
Current portion of debt obligations		---	5,483
		3,259	36,191
Long-term debt		---	6,441
Obligations under capital leases		---	94,971
		3,259	137,603
Province of Saskatchewan's Equity			
Equity advances	6	972,000	1,100,000
Reinvested earnings (deficit)		(360,715)	106,120
		611,285	1,206,120
		$ 614,544	$ 1,343,723
Contingency	9		

(See accompanying notes)

Approved on behalf of the Board



, Director



, Director

POTASH CORPORATION OF SASKATCHEWAN

CONSOLIDATED STATEMENT OF INCOME AND REINVESTED EARNINGS

For the years ended December 31

	Note	1989	1988
		(thousands)	
Income (Loss)			
Loss on investment in PCS Inc.	4	$ (441,546)	---
Share of PCS Inc. earnings		2,220	---
Other investment income		3,231	---
Loss before discontinued operations		(436,095)	---
Income from discontinued operations	5	75,380	106,120
Net income (loss) for the year		(360,715)	106,120
Dividend		(106,120)	(4,623)
Reinvested earnings, beginning of year		106,120	4,623
Reinvested earnings (deficit), end of year		$ (360,715)	$ 106,120

(See accompanying notes)

POTASH CORPORATION OF SASKATCHEWAN

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

	Note	1989	1988
		(thousands)	
Operating Activities			
Loss from operations		$ (436,095)	$ ---
Add non-cash items			---
Loss on investment in PCS Inc.		441,546	---
Share of PCS Inc. earnings		(2,220)	---
		3,231	---
Cash from discontinued operations	5	91,980	136,989
Increase in non-cash working capital		2,643	---
Total cash inflow from operations		97,854	136,989
Financing Activities			
Long-term debt repayments		(3,656)	(5,630)
Equity advance repayment		(128,000)	(42,661)
Dividend		(106,120)	(4,623)
Net cash outflow from financing activities		(237,776)	(52,914)
Investing Activities			
Proceeds on disposal of fixed assets		2,265	4,422
Proceeds on sale of assets to PCS Inc.		1,135,577	---
Investment in PCS Inc.		(1,047,380)	---
Additions to fixed assets		(11,080)	(21,638)
Additions to deferred charges		(6,539)	(292)
Proceeds received on sale of investment in PCS Inc.		208,904	---
Net cash inflow (outflow) from investing activities		281,747	(17,508)
Increase in cash		141,825	66,567
Cash and short-term investments, beginning of year		72,953	6,386
Cash and short-term investments, end of year		$ 214,778	$ 72,953

(See accompanying notes)

POTASH CORPORATION OF SASKATCHEWAN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989

1. Status of the Corporation

The Potash Corporation of Saskatchewan (the Corporation) was established by Order-in-Council on February 4, 1975 and continued under **The Potash Corporation of Saskatchewan Act**, proclaimed on April 1, 1976.

The name of the Corporation was changed to CIC Mineral Interests Corporation on January 10, 1990.

The Corporation's accounts are included in the annual consolidated financial statements of Crown Investments Corporation of Saskatchewan.

By virtue of the fact that the Corporation is a Crown corporation of the Province of Saskatchewan neither it nor its wholly owned subsidiary, Potash Corporation of Saskatchewan Mining Limited are subject to federal or provincial income taxes in Canada.

2. Accounting Policies

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary Potash Corporation of Saskatchewan Mining Limited.

b) Short Term Investments

Short term investments are carried at cost which approximates their quoted market value.

c) Investment in Potash Corporation of Saskatchewan Inc.

As at December 31, 1989, the Corporation owned 22,051,700 voting common shares of Potash Corporation of Saskatchewan Inc. (PCS Inc.) representing 63% of the outstanding voting common shares of PCS Inc. However as discussed in note 3, the Corporation has a formal plan to dispose of 11,100,000 common shares over the next three years. The remaining 10,951,700 are held as an unencumbered investment in PCS Inc.

Accordingly, the Corporation has adopted the cost method to account for the 11,100,000 shares held in trust and the equity method to account for the 10,951,700 shares held unencumbered as an investment in PCS Inc.

d) Foreign Currency Translation

Monetary assets denominated in a foreign currency have been translated at exchange rates in effect at the year end. Revenue from monetary assets denominated in a foreign currency have been translated at exchange rates in effect at the time of the respective transactions.

3. Investment in PCS Inc.

a) In accordance with a sale agreement, on November 9, 1989 substantially all of the Corporation's assets and liabilities (on a consolidated basis) were sold to PCS Inc. Consideration received by the Corporation was in the form of 35,000,000 voting common shares of PCS Inc.

As a result of the foregoing transaction, PCS Inc. was owned 100% by the Corporation. As PCS Inc. and the Corporation were therefore closely related corporations, generally accepted accounting principles would provide that the transfer of assets and operations be accounted for using the "continuity of interests" method. Therefore the assets transfer is reflected in these financial statements at the Corporation's book values rather than at fair market values. Consequently no gain or loss on the transfer of assets to PCS Inc. has been recorded by the Corporation.

Details of the net assets transferred to PCS Inc. and consideration received by the Corporation on November 9, 1989 are as follows:

	(thousands)
Net assets transferred (at book value)	
Current assets	$ 148,122
Non current assets	1,124,565
Liabilities	(225,307)
Total net assets transferred	$ 1,047,380
Consideration received	
35,000,000 voting common shares of PCS Inc.	$ 1,047,380

b) Immediately following the transfer of operations to PCS Inc. on November 9, 1989, the Corporation sold, in an initial public offering by secondary distribution, 12,860,000 of its common shares of PCS Inc. for $231 million (before underwriters fees, commissions and issue costs totalling $23 million). In addition, on November 9, 1989, 88,300 common shares were sold by the Corporation to employees of PCS Inc.

c) By separate offering memorandum, concurrently with the initial offering of common shares, the Province of Saskatchewan issued $192 million of Potash Ownership Bonds for sale only to Saskatchewan residents. These bonds contained a feature allowing the holders of the bonds to exchange the bonds for a certain number of shares of PCS Inc. owned by the Corporation. To fulfill the terms of this exchangeable feature of the ownership bonds, on December 8, 1989, 11.1 million common shares of PCS Inc., owned by the Corporation, were placed in trust with a trustee. The bonds may be exchanged for shares by the holders of the bonds any time after December 1, 1990. Upon exchange of the bonds for shares, the Corporation's consideration for the shares will be a reduction of its equity advance liability to Crown Investments Corporation of Saskatchewan. The exchange right terminates upon the maturity of the bonds on December 1, 1992.

The holder of each ownership bond will have the right, subject to certain restrictions, to direct the voting of the PCS Inc. common shares for which the ownership bonds are exchangeable. Any shares remaining in trust on December 1, 1992 will be transferred by the trustee to the Corporation.

4. Loss on Investment in PCS Inc.

Loss on investment in PCS Inc. was as follows:

	Number of Shares	Amount (thousands)
Loss on sale of shares	12,948,300	$ 178,576
Adjustment on transfer of shares to trust	11,100,000	132,369
Adjustment on shares held as an investment	10,951,700	130,601
	35,000,000	$ 441,546

a) Loss on Sale of Shares

As indicated in note 3(b), the Corporation sold 12,948,300 common shares of PCS Inc. on November 9, 1989 for proceeds of $231 million (before underwriters fees, commissions and issue costs of $23 million). The book value of these shares exceeded the proceeds resulting in a loss of $179 million.

b) Adjustment on Transfer of Shares to Trust

As explained in note 3(c), 11.1 million shares of PCS Inc. were transferred to a trust on December 8, 1989 to fulfill the exchange feature of the Potash Ownership Bonds. The bonds will be exchangeable for 5.55 common shares of PCS Inc. per $100 principal amount of bonds. As a result of the exchange feature, during the next three years any appreciation in the value of the 11.1 million shares held in trust will not accrue to the Corporation. Therefore the carrying value of the 11.1 million shares has been reduced to the exchange value of $18 per share.

c) Adjustment on Shares Held as an Investment

The issue of shares in a public secondary offering as discussed in note (b) has been considered by the Corporation as a confirming event as to the value of the 10.9 million shares held as an investment in PCS Inc. As a result the carrying value of these 10.9 million shares has been reduced to an amount equal to the public offering price of $18 per share.

5. Discontinued Operations

As discussed in Note 3, the Corporation sold its operations to PCS Inc. on November 9, 1989. The operating results from these discontinued operations for the period January 1, 1989 to November 8, 1989 are as follows (with comparative figures for the year ended December 31, 1988):

	1989	1988
	(thousands)	
Sales	$ 273,859	$ 353,361
Interest and other	7,584	17,558
	281,443	370,919
Costs and Expenses		
Operating costs other than those shown below	109,156	148,404
Depreciation and amortization	32,681	42,261
Research and development	1,672	2,220
Selling, distribution and administrative	32,795	38,546
Interest expense		
- Capital lease obligations	10,197	12,469
- Long term debt	734	938
- Short term debt	0	86
Provincial mining taxes	18,828	19,875
	206,063	264,799
Income from discontinued operations	$ 75,380	$ 106,120

Cash flow from discontinued operations was as follows:

Income from discontinued operations, as above	$ 75,380	$ 106,120
Add non-cash items		
Depreciation and amortization	32,681	42,261
Loss on disposal of fixed assets	2,712	8,830
	110,773	157,211
Increase in non-cash working capital	(18,793)	(20,222)
Cash flow from discontinued operations	$ 91,980	$ 136,989

6. Equity Advances

The equity advances received from Crown Investments Corporation of Saskatchewan (CIC) are non-interest bearing and are repayable at the discretion of CIC.

7. Related parties

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are decribed separately in the consolidated financial statements and notes thereto.

8. Comparative Figures

Certain of the 1988 comparative figures have been reclassified to conform with the current year's presentation.

9. Contingency

The Corporation has entered into an agreement whereby it has guaranteed the lease payments on certain equipment leased by PCS Inc. The present value of capital lease payments is $95 million. However, pursuant to the agreement PCS Inc. has assumed the lease obligations and indemnified the Corporation from further liability.